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**EXECUTIVE SUMMARY OF CHANGES TO CAR RULES
OF OPERATION IN DOCKET C2004-02**

On December 31, 2004, the Commissioner of Insurance (“Commissioner”) issued an order (the “December 31 Order”) approving revisions to Rules 2, 9-14 and 17 of the Commonwealth Automobile Reinsurers (“CAR”) Rules of Operation and new Rules 21 through 40. The new rules established the Massachusetts Automobile Insurance Plan (the “MAIP”), an assigned risk plan for the residual market for private passenger motor vehicle insurance. The changes to Rules 2, 9-14 and 17, in large measure, addressed issues relating to the transition from the current residual market to an assigned risk plan and were therefore designated the “Transition Rules.” New Rules 21 through 40 were designated the “MAIP Rules.” The December 31 Order was appealed to the Superior Court on various grounds, principally that the Commissioner did not have the authority to approve an assigned risk plan for the residual market. The Superior Court ruled in favor of the plaintiffs and its decision was appealed to the Supreme Judicial Court. Implementation of the rules approved in the December 31 Order was suspended pending completion of the litigation.

On August 23, 2006, the Supreme Judicial Court unanimously affirmed the Commissioner’s authority to promulgate an assigned risk plan. Its decision (*Commerce Insurance Company, et al. v. Commissioner of Insurance*) effectively reversed the Superior Court’s earlier order and the suspension of the implementation of the rules that were approved in the December 31 Order.

Between January 1, 2005 and December 16, 2005, the CAR Governing Committee voted on changes to Rules 11 through 14 and submitted them to the Commissioner for her approval. Public hearings on those proposed changes were held in accordance with the CAR Plan of Operation. The revised Rules 11 through 14 that the Commissioner approved, which are now in effect, therefore differ from those which were the basis for the Transition Rules approved in the December 31 Order. Other changes have also affected the current applicability of the Transition Rules. For example, those Rules addressed concerns about the assignment of exclusive representative producers (“ERPs”) whose books of business had exceptionally high loss ratios through provisions that created and assigned High Loss Ratio ERPs (“HLRERPs”). However, a subsequent one-time

redistribution of ERPs in early 2006 responded to those concerns, rendering some provisions of the Transition Rules no longer necessary. In addition, deadlines in the Transition and MAIP Rules for implementation of the MAIP have already passed. Finally, the court's decision requires the Commissioner to make changes to the MAIP Rules regarding the so-called "clean in three" provisions.

To address these issues, the Commissioner reviewed the CAR Transition and MAIP Rules approved in the December 31 Order and revised them to: 1) eliminate provisions of the Transition Rules that are no longer necessary because of intervening changes to CAR Rules 11 through 14; 2) integrate retained provisions of the Transition Rules into the current CAR Rules; 3) set a new timetable for the implementation of the MAIP; and 4) revise the MAIP Rules to conform to the Court's remand decision regarding "clean in three" and to clarify procedures relating to the operation of the MAIP. The principal changes are summarized below. The specific revisions may be identified by comparing the revised Transition Rules and the revised MAIP Rules to the rules approved in the December 31 Order. As revised, these rules govern the operation of the residual market for private passenger motor vehicle insurance during the transition from the current system to the MAIP and the phase-in period of the MAIP. Following completion of the phase-in period for the MAIP, as of July 1, 2007, Rules 1-20 will continue to apply to the residual market for commercial business only.

A. The Revised Transition Rules 2, 9-14 and 17.

Rule 2. The following definitions have been eliminated: Agency Management Plan, All Other Motor Vehicle, HLRERP, High Loss Ratio Improvement Plan, Paid Loss Ratio Incentive Plan, Subsidy and Subsidy Clearinghouse. The effective date of the MAIP Rules has been changed to January 1, 2007. Note that MAIP Rule 21 provides a phase-in period for actual assignment of risks to the MAIP.

Rule 9. The rule as approved in the December 31 Order is unchanged.

Rule 10. The rule as approved in the December 31 Order is unchanged except that special reimbursements requested pursuant to subsection E will be considered only in connection with claims that arise before July 1, 2007.

Rule 11. As of December 16, 2005, the Commissioner approved changes to Rule 11 that supersede the Rule that was approved in the December 31 Order. The current CAR Rule 11 remains in place during the transition to the MAIP.

Rule 12. The Commissioner approved changes to Rule 12 that supersede the Rule that was approved in the December 31 Order. The current CAR Rule 12 remains in place during the transition to the MAIP. The provision for a subsidy clearing house in the December 31 Order has been eliminated.

Rule 13. As of September 30, 2005 and December 16, 2005, the Commissioner approved changes to Rule 13 that supersede some provisions of the Rule that was approved in the December 31 Order. Transition Rule 13 retains language from the December 31 Order that requires servicing carriers to provide producers with a list of approved inspection services and prohibits brokering private passenger motor vehicle insurance, and is otherwise virtually identical to the current CAR Rule 13. The provisions in Transition Rule 13 A.1.a.(1) that changed the definition of private passenger Servicing

Carrier and those that related specifically to High Loss Ratio ERPs, Agency Management Plans for ERPs, and redistribution of HLR ERPs have been eliminated.

Rule 14. As of November 7, 2005 and December 16, 2005, the Commissioner approved changes to Rule 14 that supersede the rule that was approved in the December 31 Order. The current CAR Rule 14 remains in place during the transition to the MAIP. Provisions in Transitional Rule 14 relating specifically to HLR ERPS and Agency Management Plans have been eliminated.

Rule 17. The current CAR Rule 17 will remain in place during the transition period. The provision of Transition Rule 17 A. 2 that established the Paid Loss Ratio Incentive Plan has been eliminated.

B. The MAIP Rules (Rules 21-40)

Some revisions have been made to the MAIP Rules with the goal of improving the clarity and consistency of the rules and with the intent of improving the operations of the MAIP. The highlights of the revisions are summarized below.

Rule 21. The timetable for implementing the MAIP has changed to establish a measured approach to full operation. The MAIP Rules will be effective as of January 1, 2007, with the proviso that new business risks shall be placed in the MAIP as of April 1, 2007 and renewal business as of July 1, 2007. This schedule will permit CAR, during the first three months of 2007, to set up the administrative framework needed to support a smooth transition to assigned risk plan operations.

Rule 22. Definitions have been added of Clean-in-Three Risk and New Business. The definition of Member has been revised to clarify that a Limited Assignment Distribution Company ("LADC") is not a Member. The definitions of Principal Place of Business, Subsidy and Subsidy Clearinghouse have been eliminated.

Rule 23. Members who decline to write an applicant for motor vehicle insurance are now obligated, before referring the applicant to the MAIP, to provide the applicant with a written statement of the reasons why it declined to write the business.

Rule 26. The specific conditions under which an applicant to the MAIP may request reassignment to a different company have been expanded. The provisions that excluded from eligibility for the MAIP risks which had no record of at-fault accidents or traffic violations during the past three policy years, the so-called "clean in three rule" have been changed to comply with the remand decision of the Supreme Judicial Court. CAR must distribute to its Members a list of risks that have been assigned through the MAIP who, after three years, qualify as Clean-in-Three Risks as defined in Rule 22.

Distribution of this list is intended to enhance the possibility that the risk will be written voluntarily. A Clean-in-Three Risk who is not written voluntarily retains the right to remain with his or her current carrier or request reassignment to another insurer.

Rule 29. The Rule has been clarified to state expressly that a Member may delegate its responsibilities related to servicing its Assigned Risk Company (“ARC”) quota share to a Limited Assignment Distribution Company (“LADC”), but will remain responsible for ensuring that the LADC complies with CAR rules and state law. The requirements for appointment as a LADC have been moved to Rule 30. Methodologies for calculating the initial quota share for MAIP members and for determining private passenger motor vehicle MAIP premiums have been added. The system for awarding companies credits to be applied to their quota shares has been revised and simplified, eliminating “take-out” language. The terms of the credit programs have been changed, and a table added showing the initial credit-eligible operator classes and rating territories. The rule sets the amount of credit for rate year 2007, and further provides that credits are to be reviewed annually and submitted to the Commissioner for approval. A special provision addresses the assignment of household members to the MAIP and credits for writing such business.

Rule 30. The qualifications for appointment as a LADC have been added to this Rule. The operating relationships among CAR, ARCs and LADCs have been revised and clarified. The provisions for offering voluntary coverage to a MAIP policyholder have been revised, eliminating the “take-out” language.

Rule 31. The date on which licensed producers will be determined to have met the producer certification requirements and the date for annual review of production requirements has been changed to April 1, 2007.

Rule 36. The provision for a subsidy clearinghouse has been eliminated, and the rule reserved for future use.